

**Tennessee Board of Regents
Cleveland State Community College**

**For the Years Ended
June 30, 2002, and June 30, 2001**

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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
State Capitol
Nashville, Tennessee 37243-0260
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John G. Morgan
Comptroller

July 17, 2003

The Honorable Phil Bredesen, Governor
and

Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and

The Honorable Charles W. Manning, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 350
Nashville, Tennessee 37217

Dr. Carl M. Hite, President
Cleveland State Community College
3535 Adkisson Drive
P. O. Box 3570
Cleveland, Tennessee 37320

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Cleveland State Community College, for the years ended June 30, 2002, and June 30, 2001. You will note from the independent auditor's report that an unqualified opinion was given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance resulted in no audit findings.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/adr
03/046

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Cleveland State Community College
For the Years Ended June 30, 2002, and June 30, 2001

AUDIT OBJECTIVES

The objectives of the audit were to consider the college's internal control over financial reporting; to determine compliance with certain provisions of laws, regulations, contracts, and grants; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

AUDIT FINDINGS

The audit report contains no findings.

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report, please contact

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Audit Report
Tennessee Board of Regents
Cleveland State Community College
For the Years Ended June 30, 2002, and June 30, 2001

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**Tennessee Board of Regents
Cleveland State Community College
For the Years Ended June 30, 2002, and June 30, 2001**

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Tennessee Board of Regents, Cleveland State Community College. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

BACKGROUND

The idea for Tennessee’s community college system was conceived in 1957 when the state legislature ordered a study of community college programs, a study which resulted in the Pierce-Albright Report. Acting on the recommendation of the Governor and the State Department of Education, the General Assembly authorized the Department of Education to establish several community colleges throughout Tennessee. Cleveland State Community College was established as a two-year college by the 1965 Tennessee General Assembly. The first class graduated in June 1969. The General Assembly vested the governance of Cleveland State Community College in the Tennessee Board of Regents on July 1, 1972.

ORGANIZATION

The governance of Cleveland State Community College is vested in the Tennessee Board of Regents. The Governor, the Commissioner of Education, the Commissioner of Agriculture, and the Director of the Tennessee Higher Education Commission serve *ex officio* on this board. The chief administrative officer of the college is the president, who is assisted and advised by members of the faculty and administrative staff.

AUDIT SCOPE

The audit was limited to the period July 1, 2000, through June 30, 2002, and was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Financial statements are presented for the years ended June 30, 2002, and June 30, 2001. The financial statements for the year ended June 30, 2002, are presented on an entity-wide perspective as required by the implementation of Governmental Accounting Standards Board Statements 34 and 35. The financial statements for the year ended June 30, 2001, are presented on the fund-group perspective that was previously required. Cleveland State Community College is an institution of the Tennessee Board of Regents, which is an integral part of state government. As such, the Tennessee Board of Regents has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to consider the college's internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements;
2. to determine compliance with certain provisions of laws, regulations, contracts, and grants;
3. to determine the fairness of the presentation of the financial statements; and
4. to recommend appropriate actions to correct any deficiencies.

PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the college's financial statements for the years ended June 30, 2002, and June 30, 2001, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Consideration of internal control over financial reporting disclosed no material weaknesses.

Compliance

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Fairness of Financial Statement Presentation

The Division of State Audit has rendered an unqualified opinion on the college's financial statements.



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT

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**Report on Compliance and on Internal Control
Over Financial Reporting Based on an Audit of
Financial Statements Performed in Accordance With
*Government Auditing Standards***

June 9, 2003

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the financial statements of Cleveland State Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of and for the years ended June 30, 2002, and June 30, 2001, and have issued our report thereon dated June 9, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. As discussed in Note 10, during the year ended June 30, 2002, the college implemented GASB Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and GASB Statement 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*. The college also implemented GASB Statement 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, and GASB Statement 38, *Certain Financial Statement Note Disclosures*. During the year ended June 30, 2001, the college implemented GASB Statement 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

The Honorable John G. Morgan
June 9, 2003
Page Two

Compliance

As part of obtaining reasonable assurance about whether the college's financial statements are free of material misstatement, we performed tests of the college's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

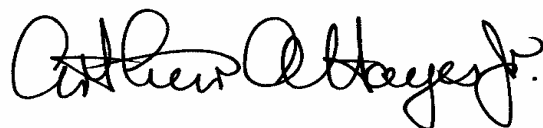
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the college's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted certain matters involving the internal control over financial reporting, which we have reported to the college's management in a separate letter.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee and management and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Sincerely,

A handwritten signature in black ink, appearing to read "Arthur A. Hayes Jr.", with a stylized, cursive script.

Arthur A. Hayes, Jr., CPA
Director

AAH/adr



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT**

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Independent Auditor's Report

June 9, 2003

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying statement of net assets of Cleveland State Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of June 30, 2002, and the related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the college's management. Our responsibility is to express an opinion on these financial statements, based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Honorable John G. Morgan
June 9, 2003
Page Two

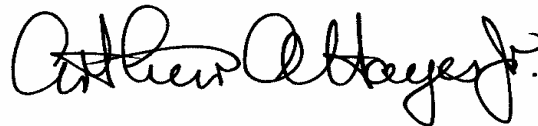
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Board of Regents, Cleveland State Community College, as of June 30, 2002, and the revenues, expenses, and changes in net assets and the cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 10, the college implemented GASB Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and GASB Statement 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*. The college also implemented GASB Statement 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, and GASB Statement 38, *Certain Financial Statement Note Disclosures*.

The management's discussion and analysis on pages 8 through 17 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 9, 2003, on our consideration of the college's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

A handwritten signature in black ink, reading "Arthur A. Hayes, Jr." with a stylized, cursive script.

Arthur A. Hayes, Jr., CPA
Director

AAH/adr

Management's Discussion and Analysis

This section of Cleveland State Community College's annual financial report presents a discussion and analysis of the financial performance of the college during the fiscal year ended June 30, 2002. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with them. The financial statements, notes, and this discussion are the responsibility of management.

Since this is a transition year for the new financial reporting format required by the Governmental Accounting Standards Board's Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* and No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, only one year of information is presented in the financial statements and this discussion. Comparative information will be presented in future years.

Using This Annual Report

This report consists of three basic financial statements. The statement of net assets; the statement of revenues, expenses, and changes in net assets; and the statement of cash flows provide information on Cleveland State Community College as a whole and present a long-term view of the college's finances.

The Statement of Net Assets

The statement of net assets presents the financial position of the college at the end of the fiscal year and includes all assets and liabilities of the college. The difference between total assets and total liabilities—net assets—is an indicator of the current financial condition of the college. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allowance for depreciation.

Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, provides the college's equity in property, plant, and equipment owned by the college. The next asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is only available for investment purposes. Expendable restricted net assets are available for expenditure by the college but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. At June 30, 2002, the college had no nonexpendable restricted net assets. The final category is unrestricted net assets. Unrestricted assets are available to the institution for any lawful purpose of the institution.

Statement of Net Assets
(in thousands of dollars)

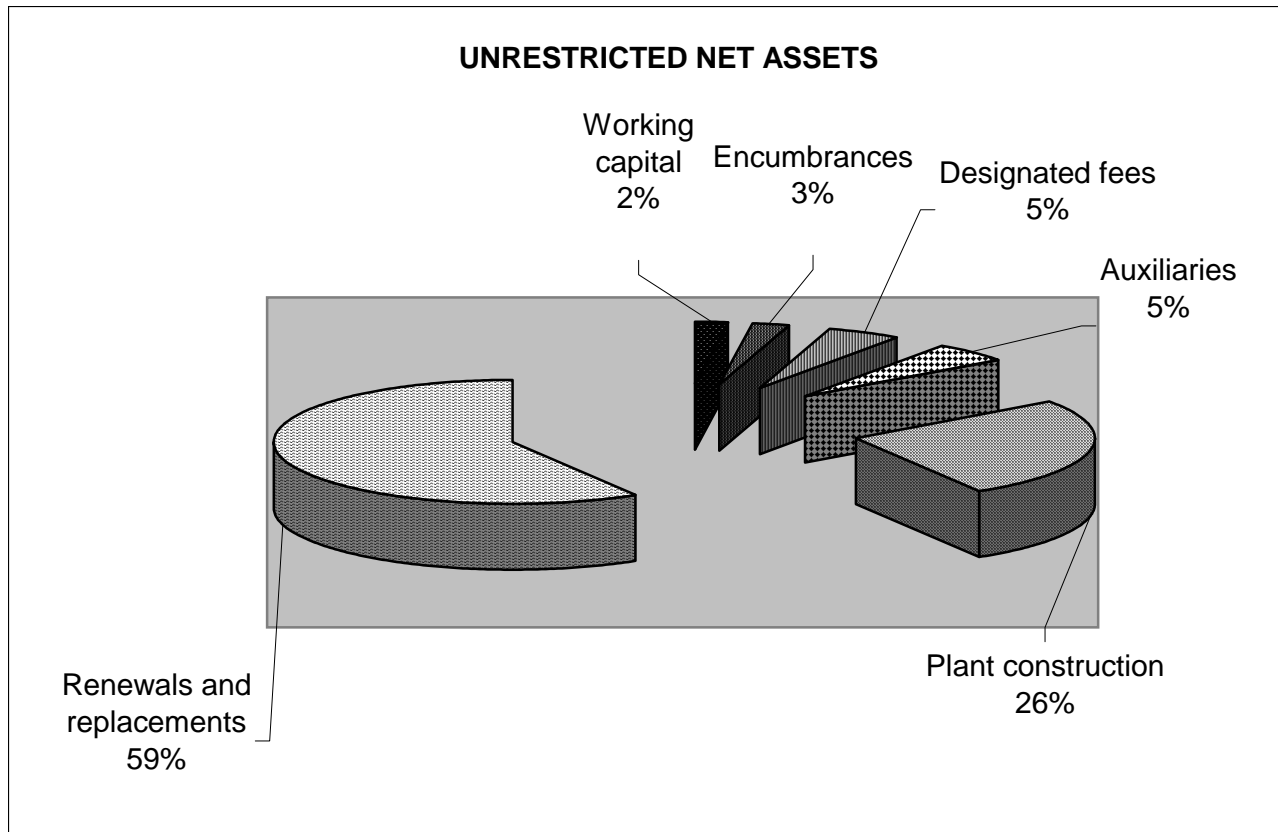
	<u>2002</u>
Assets:	
Current assets	\$2,365
Capital assets, net	4,060
Other assets	<u>3,447</u>
Total assets	<u>9,872</u>
Liabilities:	
Current liabilities	1,305
Noncurrent liabilities	<u>283</u>
Total liabilities	<u>1,588</u>
Net assets:	
Invested in capital assets, net of related debt	4,014
Restricted – expendable	29
Unrestricted	<u>4,241</u>
Total net assets	<u>\$8,284</u>

- The major components of current assets are cash and accounts, notes, and grants receivable. Cash was \$2,167,455.75, and accounts, notes, and grants receivable were \$177,309.49.
- Net capital assets of the college consist of

Land	\$ 290,530.50
Buildings	2,733,219.59
Land improvements and infrastructure	154,915.97
Equipment	589,965.11
Library holdings	291,863.07

- Other assets include noncurrent cash of \$3,309,754.50. This amount represents funds reserved for plant construction and renewals and replacement of plant.
- Current liabilities consist of short-term accounts payable, accrued liabilities, accrued employee annual leave estimated to be paid within one year, deferred revenue, and scholarship funds held for students.
- Noncurrent liabilities include funds accrued for employee annual leave estimated for future payments beyond one year and long-term principal owed on debt.

Many of the college's unrestricted net assets have been designated or reserved for specific purposes such as encumbrances, auxiliaries, repairs and replacement of equipment, and capital projects. The following graph shows the allocations:



The Statement of Revenues, Expenses, and Changes in Net Assets

The statement of revenues, expenses, and changes in net assets presents the operating results of the college, as well as the nonoperating revenues and expenses. Annual state appropriations, while budgeted for operations, are considered nonoperating revenues according to generally accepted accounting principles.

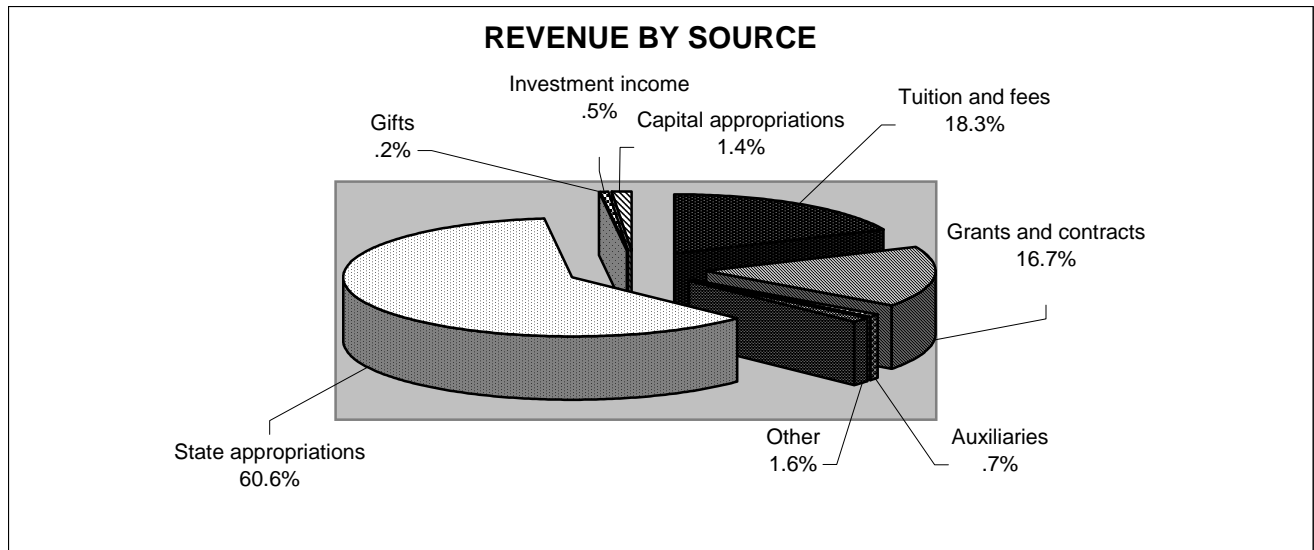
Statement of Revenues, Expenses, and Changes in Net Assets (in thousands of dollars)

	<u>2002</u>
Operating revenues:	
Net tuition and fees	\$2,850
Auxiliary enterprises	107
Grants and contracts	2,596
Other	<u>256</u>
Total operating revenues	<u>5,809</u>
 Operating expenses	 <u>14,972</u>
Operating loss	<u>(9,163)</u>

Nonoperating revenues and expenses:	
State appropriations	9,422
Gifts	40
Investment income	74
Other revenues and expenses	<u>(3)</u>
Total nonoperating revenues and expenses	<u>9,533</u>
 Income (loss) before other revenues, expenses, gains, or losses	 <u>370</u>
 Other revenues, expenses, gains, or losses:	
Capital appropriations	210
Other	<u>(4)</u>
 Total other revenues, expenses, gains, or losses	 <u>206</u>
 Increase (decrease) in net assets	 <u>576</u>
 Net assets at beginning of year, as originally reported	 24,233
 Cumulative effects of changes in accounting principle	 <u>(16,525)</u>
 Net assets at beginning of year, restated	 <u>7,708</u>
Net assets at end of year	<u><u>\$ 8,284</u></u>

Revenues

The following is a graphic illustration of revenues by source (both operating and nonoperating), which were used to fund the college's operating activities for the year ended June 30, 2002.



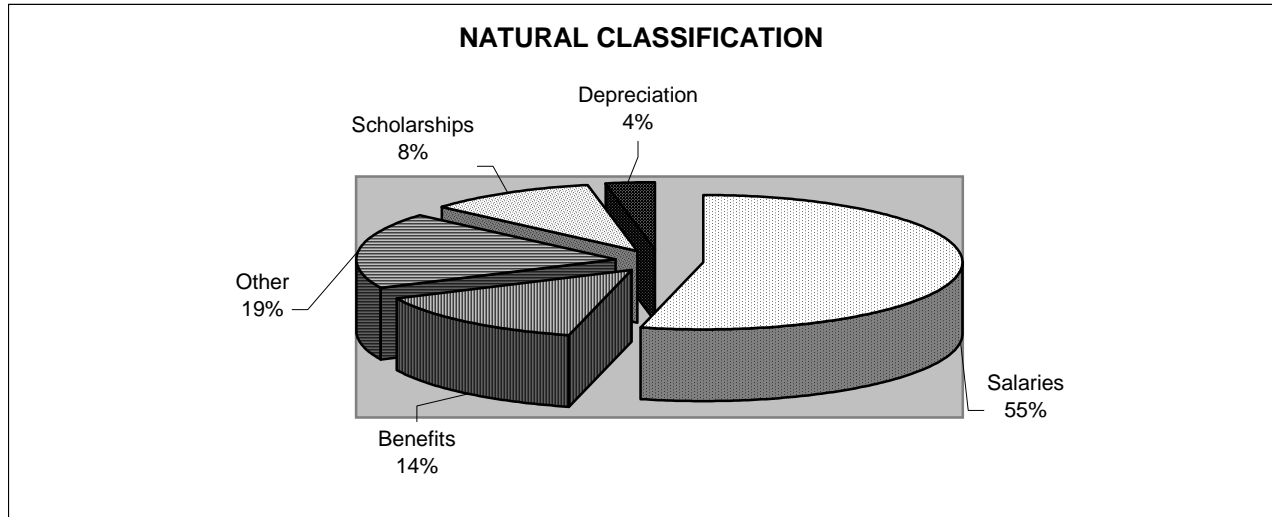
- Student tuition and fees, net of scholarship allowances, provide 18.3% of the college's revenues.
- Grants and contracts consist of federal and state student financial aid and various restricted grants to the college.
- Commission on the outsourcing of the bookstore is 94% of the auxiliary revenues.
- Sixty percent of Cleveland State Community College's revenue is attributed to state appropriations.
- Capital appropriations consist of the payments by the State of Tennessee for capital improvements to the campus. The two major improvements during the year were the replacement of sidewalks on campus and the roofing of the library building.
- Other revenues include interest income, rental of facilities, testing, and sales and services of educational activities.

Expenses

Operating expenses can be displayed in two formats, natural classification and functional classification. Both formats are displayed below.

Natural Classification
(in thousands of dollars)

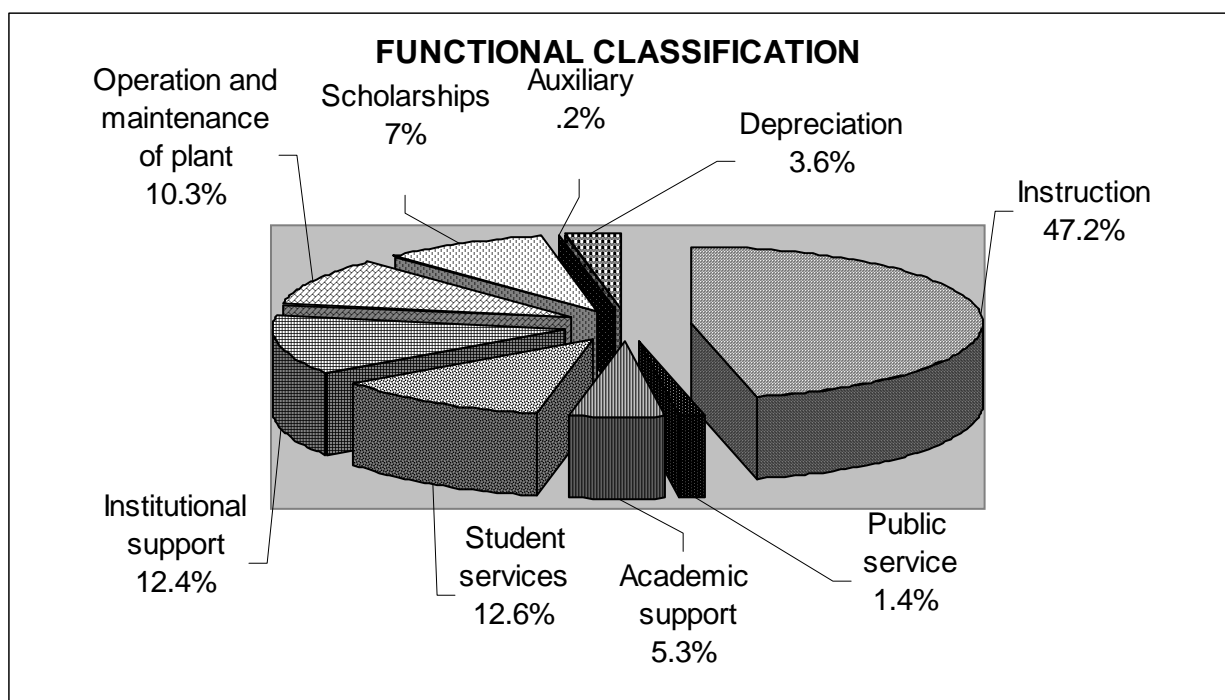
Salaries	\$ 8,218
Benefits	2,169
Other operating	2,806
Scholarships and fellowships	1,246
Depreciation	<u>533</u>
Total	<u>\$14,972</u>



- Salaries represent the largest percentage of operating expense (55%).
- Benefits on the salaries consist of retirement, FICA, and insurance paid on behalf of employees.
- Other operating expenses include travel, instructional and operating supplies, administrative operating expenses, utilities, and expenses for the maintenance of facilities.
- Scholarships and fellowships represent financial aid expenses less scholarship allowances.
- Depreciation is calculated on fixed assets using the straight-line method.

Functional Classification
(in thousands of dollars)

Instruction	\$7,063
Public service	208
Academic support	805
Student services	1,892
Institutional support	1,878
Operation and maintenance of plant	1,562
Scholarships	1,003
Auxiliary	28
Depreciation	533
Total	<u>\$14,972</u>



- Instruction is the largest functional expense category for the college (47.2%). This category consists of faculty salaries and benefits, travel, and instructional supplies.
- Academic support expenses include library, media services, computer services, and academic administration charges.
- Student services include athletic expenses, student development, admissions and records, and financial aid administration expenses.
- Institutional support expenses reflect the administrative cost of the college.

- Operation and maintenance of plant expenses consist of the cost of maintaining campus facilities, janitorial expenses, utilities, off-campus rent, and the cost of maintaining the grounds.

The Statement of Cash Flows

The statement of cash flows provides information about cash receipts and cash payments during the year. This statement also assists users in assessing the college's ability to generate net cash flows, its ability to meet its obligations as they come due, and its need for external financing.

Statement of Cash Flows (in thousands of dollars)	
	<u>2002</u>
Cash provided (used) by:	
Operating activities	\$(8,387)
Noncapital financing activities	9,487
Investing activities	75
Capital and related financing activities	<u>(160)</u>
Net increase (decrease) in cash	1,015
Cash, beginning of year	<u>4,462</u>
Cash, end of year	<u><u>\$5,477</u></u>

- The primary cash receipts from operating activities include tuition, fees, grants, and contracts. Operating cash outlays include payments for wages, benefits, travel, supplies, utilities, and scholarships.
- State appropriations are the primary source of noncapital financing. The new accounting standards require that we reflect this source of revenue as nonoperating even though state appropriations are necessary to fund current operations.
- Capital appropriations from the state fund the college's capital and related financing activities. This financing revenue is offset by capital expenditures of \$281,405.52 and the payment of principal and interest on capital debt of \$25,085.02.
- Cash increased \$1,014,845.06 over fiscal year 2002. This increase in cash improves the college's liquidity and its ability to meet its obligations as they come due.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2002, Cleveland State Community College had \$4,060,494.24 invested in capital assets, net of accumulated depreciation of \$9,515,486.74. Depreciation charges totaled \$532,523.58 for the current fiscal year. Details of these assets are shown below.

Schedule of Capital Assets, Net of Depreciation (in thousands of dollars)

	<u>2002</u>
Land	\$290
Land improvements & infrastructure	155
Buildings	2,733
Equipment	590
Library holdings	<u>292</u>
Total	<u>\$4,060</u>

Major Capital Additions in Fiscal Year 2002

- \$156,045.75 was expensed in replacing sidewalks on campus to meet the requirements of the Americans with Disabilities Act. Of this amount, the State of Tennessee funded \$123,340.75, and the college funded the balance.
- Additional equipment in the amount of \$70,626.41 was purchased by the college.
- \$54,733.36 was added to library holdings by the college. The purchase of new books accounted for approximately 75% of this addition.

Planned Expenditures for Fiscal Year 2003

- Private funding was secured to renovate a portion of the technology building as an early childhood development center. Planning will begin in fall 2002 with construction beginning in late spring. It is anticipated that the project will be completed for fall 2003.
- Private funding is being sought to renovate and expand the auditorium building. Plans include increasing the number of classrooms and offices, the size of the lobby, and the addition of space for an art viewing area.

More detailed information about the college's capital assets is presented in Note 5 to the financial statements.

Debt

At June 30, 2002, the college had \$46,643.35 in loans outstanding.

The college repaid \$21,669.38 of principal and paid \$3,415.64 of interest during the 2002 fiscal year. More detailed information about the college's long-term liabilities is presented in Note 6 to the financial statements.

Economic Factors That Will Affect the Future

The economic position of Cleveland State Community College is closely tied to that of the State of Tennessee. State appropriations comprise 60% of the college's total revenues. As of June 30, 2002, the appropriation for the upcoming fiscal year had not been finalized.

For fiscal year 2003, the Tennessee Board of Regents has authorized a fee increase of 7.5%.

TENNESSEE BOARD OF REGENTS
CLEVELAND STATE COMMUNITY COLLEGE
STATEMENT OF NET ASSETS
June 30, 2002

ASSETS

Current assets:

Cash (Notes 2 and 3)	\$ 2,167,455.75
Accounts, notes, and grants receivable (net) (Note 4)	177,309.49
Prepaid expenses and deferred charges	19,698.48
Accrued interest receivable	<u>515.58</u>

Total current assets	<u>2,364,979.30</u>
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Noncurrent assets:

Cash (Notes 2 and 3)	3,309,754.50
Accounts, notes, and grants receivable (net) (Note 4)	136,859.19
Capital assets (net) (Note 5)	<u>4,060,494.24</u>

Total noncurrent assets	<u>7,507,107.93</u>
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Total assets	<u>9,872,087.23</u>
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LIABILITIES

Current liabilities:

Accounts payable	151,133.11
Accrued liabilities	319,599.51
Deferred revenue	168,041.04
Compensated absences (Note 6)	243,976.29
Accrued interest payable	900.92
Long term liabilities - current portion (Note 6)	22,752.85
Deposits held in custody for others	<u>398,557.22</u>

Total current liabilities	<u>1,304,960.94</u>
---------------------------	---------------------

Noncurrent liabilities:

Compensated absences (Note 6)	258,130.61
Long term liabilities (Note 6)	23,890.50
Due to grantors	<u>822.34</u>

Total noncurrent liabilities	<u>282,843.45</u>
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Total liabilities	<u>1,587,804.39</u>
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NET ASSETS

Invested in capital assets, net of related debt	4,013,850.89
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Restricted:

Expendable:

Scholarships and fellowships	281.60
Instructional departments	18,619.46
Loans	91.37
Other	10,779.93

Unrestricted	<u>4,240,659.59</u>
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Total net assets	<u><u>\$ 8,284,282.84</u></u>
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The notes to the financial statements are an integral part of this statement.

TENNESSEE BOARD OF REGENTS
CLEVELAND STATE COMMUNITY COLLEGE
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2002

REVENUES

Operating revenues	
Student tuition and fees (net of scholarship allowances of \$1,408,983.44)	\$ 2,849,707.38
Governmental grants and contracts	2,591,283.28
Non-governmental grants and contracts	4,982.00
Sales and services of educational departments	5,144.87
Auxiliary enterprises:	
Bookstore	100,872.65
Food service	2,100.00
Other auxiliaries	4,349.57
Other operating revenues	<u>251,021.99</u>
Total operating revenue	<u>5,809,461.74</u>

EXPENSES

Operating expenses	
Salaries and wages	8,217,836.60
Fringe benefits	2,168,786.73
Utilities, supplies, and other services	2,806,245.21
Scholarships and fellowships	1,246,267.53
Depreciation expense	<u>532,523.58</u>
Total operating expenses	<u>14,971,659.65</u>
Operating income (loss)	<u>(9,162,197.91)</u>

NONOPERATING REVENUES (EXPENSES)

State appropriations	9,421,970.00
Gifts	39,913.84
Investment income	74,332.56
Interest on capital asset - related debt	(2,997.09)
Other nonoperating expenses	<u>(432.00)</u>
Net nonoperating revenues	<u>9,532,787.31</u>
Income (loss) before other revenues, expenses, gains, or losses	<u>370,589.40</u>
Capital appropriations	209,765.35
Other	<u>(4,260.00)</u>
Total other revenues	<u>205,505.35</u>
Increase in net assets	<u>576,094.75</u>

NET ASSETS

Net assets at beginning of year	24,233,329.96
Cumulative effects of changes in accounting principle (Note 10)	<u>(16,525,141.87)</u>
Net assets at beginning of year, restated	<u>7,708,188.09</u>
Net assets at end of year	<u><u>\$ 8,284,282.84</u></u>

The notes to the financial statements are an integral part of this statement.

TENNESSEE BOARD OF REGENTS
CLEVELAND STATE COMMUNITY COLLEGE
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2002

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and fees	\$ 2,881,903.59
Grants and contracts	2,675,492.73
Sales and services of educational activities	5,398.12
Payments to suppliers and vendors	(2,783,534.91)
Payments to employees	(8,138,138.30)
Payments for benefits	(2,142,211.67)
Payments for scholarships and fellowships	(1,242,607.91)
Auxiliary enterprises:	
Bookstore	99,908.29
Food service	2,100.00
Other auxiliaries	4,349.57
Other receipts (payments)	<u>250,318.09</u>
Net cash provided (used) by operating activities	<u>(8,387,022.40)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State appropriations	9,334,270.00
Gifts and grants for other than capital or endowment purposes	27,291.00
Agency transactions	126,181.04
Other receipts (payments)	<u>(432.00)</u>
Net cash provided (used) by noncapital financing activities	<u>9,487,310.04</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Capital appropriations	146,715.40
Purchase of capital assets and construction	(281,405.52)
Principal paid on capital debt and leases	(21,669.38)
Interest paid on capital debt and leases	<u>(3,415.64)</u>
Net cash provided (used) by capital and related financing activities	<u>(159,775.14)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest on investments	<u>74,332.56</u>
Net cash provided (used) by investing activities	<u>74,332.56</u>

Net increase (decrease) in cash	1,014,845.06
Cash at beginning of year	<u>4,462,365.19</u>
Cash at end of year	<u><u>\$ 5,477,210.25</u></u>

TENNESSEE BOARD OF REGENTS
CLEVELAND STATE COMMUNITY COLLEGE
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2002

**RECONCILIATION OF NET OPERATING LOSS TO NET CASH
PROVIDED (USED) BY OPERATING ACTIVITIES:**

Operating loss	\$ (9,162,197.91)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:	
Depreciation expense	532,523.58
Donation of supplies to the college	12,622.84
Changes in assets and liabilities:	
Receivables, net	122,721.79
Prepaid expenses and deferred charges	(10,624.72)
Other assets	(35.34)
Accounts payable	(10,728.92)
Accrued liabilities	36,353.75
Deferred revenue	26,980.87
Deposits	(5,000.00)
Compensated absences	70,320.06
Loans to students and employees	41.60
	<hr/>
Net cash provided (used) by operations	\$ <u><u>(8,387,022.40)</u></u>

Non-Cash Transactions

Donations of supplies to the college	\$ 12,622.84
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The notes to the financial statements are an integral part of this statement.

**Tennessee Board of Regents
Cleveland State Community College
Notes to the Financial Statements
June 30, 2002**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The college is a part of the State University and Community College System of Tennessee (Tennessee Board of Regents). This system is a component unit of the State of Tennessee because the state appoints a majority of the system's governing body and provides financial support; the system is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

Basis of Presentation

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). In June 1999, the GASB issued Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. This was followed in November 1999 by GASB Statement 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*. The financial presentation required by those statements provides a comprehensive, entity-wide perspective of the college's assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows, and replaces the fund-group perspective previously required.

Significant accounting changes made in order to comply with the new requirements include (1) adoption of depreciation on capital assets and (2) reporting summer school revenues and expenses between fiscal years rather than in one fiscal year.

Basis of Accounting

For financial statement purposes, the college is considered a special-purpose government engaged only in business-type activities. Accordingly, the financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. All significant interfund transactions have been eliminated.

**Tennessee Board of Regents
Cleveland State Community College
Notes to the Financial Statements (Cont.)
June 30, 2002**

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The college has the option of following private-sector guidance issued subsequent to November 30, 1989, subject to the above limitation. The college has elected not to follow private-sector guidance issued subsequent to November 30, 1989.

Amounts reported as operating revenues include (1) tuition and fees, net of waivers and discounts; (2) federal, state, and private grants and contracts; (3) sales and services of auxiliary enterprises; and (4) other sources of revenue. Operating expenses for the college include (1) salaries and wages; (2) employee benefits; (3) scholarships and fellowships; (4) depreciation; and (5) utilities, supplies, and other services.

All other activity is nonoperating in nature and includes (1) state appropriations for operations; (2) investment income; (3) interest on capital asset-related debt; and (4) gifts.

When both restricted and unrestricted resources are available for use, generally it is the college's policy to use the restricted resources first.

Compensated Absences

The college's employees accrue annual leave at varying rates, depending on length of service or classification. Some employees also earn compensatory time. The amount of these liabilities and their related benefits are reported in the statement of net assets.

Capital Assets

Capital assets, which include property, plant, equipment, and library holdings, are reported in the statement of net assets at historical cost or at fair value at date of donation, less accumulated depreciation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's useful life are not capitalized.

A capitalization threshold of \$100,000 is used for buildings; \$50,000 for additions and improvements to land, buildings, or infrastructure; and \$5,000 for equipment.

**Tennessee Board of Regents
Cleveland State Community College
Notes to the Financial Statements (Cont.)
June 30, 2002**

These assets, with the exception of land, are depreciated using the straight-line method over the estimated useful lives, which range from 5 to 40 years.

Net Assets

The college's net assets are classified as follows:

Invested in capital assets, net of related debt – This represents the college's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Expendable restricted net assets – Expendable restricted net assets include resources which the college is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Unrestricted net assets – Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the college, and may be used at the discretion of the college to meet current expenses for any purpose. The auxiliary enterprises are substantially self-supporting activities that provide services for students, faculty, and staff.

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the college and the amount that is paid by the student and/or third parties making payments on the student's behalf. Certain governmental grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the college's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the college has recorded a scholarship discount and allowance.

Comparative Data

Comparative financial statements are not presented as the college implemented GASB Statements 34, 35, 37, and 38, and comparative statements are not required. Certain

**Tennessee Board of Regents
Cleveland State Community College
Notes to the Financial Statements (Cont.)
June 30, 2002**

amounts presented in prior years' data have been reclassified to be consistent with the current year's presentation.

NOTE 2. CASH

This classification includes demand deposits and petty cash on hand. At June 30, 2002, cash consisted of \$534,432.04 in bank accounts, \$1,460.00 of petty cash on hand, and \$4,941,318.21 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer.

NOTE 3. DEPOSITS

The college's deposits are in financial institutions that participate in the bank collateral pool administered by the State Treasurer. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

The laws of the State of Tennessee require that collateral be pledged to secure all uninsured deposits. Tennessee Board of Regents policies require that the market value of collateral pledged equal 115%, 100%, or 90% of the uninsured deposits at financial institutions participating in the collateral pool. The pledge level is based on financial criteria set by the Collateral Pool Board with the financially strongest institutions being eligible for the lowest pledge level.

The college also has deposits in the Local Government Investment Pool (LGIP) administered by the State Treasurer. The LGIP is part of the Pooled Investment Fund. The fund's investment policy and custodial credit risk are presented in the *Tennessee Comprehensive Annual Financial Report*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

**Tennessee Board of Regents
Cleveland State Community College
Notes to the Financial Statements (Cont.)
June 30, 2002**

NOTE 4. RECEIVABLES

Receivables at June 30, 2002, included the following:

Student accounts receivable	\$ 98,617.98
Grants receivable	65,673.57
Notes receivable	387.77
Other receivables	<u>173,882.37</u>
Subtotal	338,561.69
Less allowance for doubtful accounts	<u>24,393.01</u>
Total receivables	<u><u>\$314,168.68</u></u>

Federal Perkins Loan Program funds at June 30, 2002, included the following:

Perkins loans receivable	\$ 775.55
Less allowance for doubtful accounts	<u>387.78</u>
Total	<u><u>\$ 387.77</u></u>

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2002, was as follows:

**Tennessee Board of Regents
Cleveland State Community College
Notes to the Financial Statements (Cont.)
June 30, 2002**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land	\$290,530.50	\$ -	\$ -	\$ -	\$290,530.50
Land improvements and infrastructure	728,909.99	156,045.75	-	-	884,955.74
Buildings	9,159,463.21	-	-	-	9,159,463.21
Equipment	2,658,224.98	70,626.41	-	59,917.62	2,668,933.77
Library holdings	<u>567,490.65</u>	<u>55,223.36</u>	<u>-</u>	<u>50,616.25</u>	<u>572,097.76</u>
Total	<u>13,404,619.33</u>	<u>281,895.52</u>	<u>-</u>	<u>110,533.87</u>	<u>13,575,980.98</u>
Less accumulated depreciation:					
Land improvements and infrastructure	704,745.63	25,294.14	-	-	730,039.77
Buildings	6,167,973.62	258,270.00	-	-	6,426,243.62
Equipment	1,947,448.15	186,688.13	-	55,167.62	2,078,968.66
Library holdings	<u>268,579.63</u>	<u>62,271.31</u>	<u>-</u>	<u>50,616.25</u>	<u>280,234.69</u>
Total accumulated depreciation	<u>9,088,747.03</u>	<u>532,523.58</u>	<u>-</u>	<u>105,783.87</u>	<u>9,515,486.74</u>
Capital assets, net	<u>\$4,315,872.30</u>	<u>\$(250,628.06)</u>	<u>\$ -</u>	<u>\$ 4,750.00</u>	<u>\$4,060,494.24</u>

NOTE 6. LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2002, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Payables:					
Loan payable	<u>\$ 68,312.73</u>	<u>\$ -</u>	<u>\$21,669.38</u>	<u>\$ 46,643.35</u>	<u>\$ 22,752.85</u>
Other liabilities:					
Compensated absences	<u>431,786.84</u>	<u>99,135.86</u>	<u>28,815.80</u>	<u>502,106.90</u>	<u>243,976.29</u>
Total long-term liabilities	<u>\$500,099.57</u>	<u>\$99,135.86</u>	<u>\$50,485.18</u>	<u>\$548,750.25</u>	<u>\$266,729.14</u>

**Tennessee Board of Regents
Cleveland State Community College
Notes to the Financial Statements (Cont.)
June 30, 2002**

Loan Payable

The Tennessee Board of Regents, on behalf of the college, borrowed funds from the state's Energy Management Loan Fund to replace a chiller. The loan has an interest rate of 5%, a face amount of \$108,605.00, a minimum annual debt service of \$25,085.02, and a due date of February 9, 2004. The balance owed by the college was \$46,643.35 at June 30, 2002.

Debt service requirements to maturity for the loan payable at June 30, 2002, are as follows:

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$22,752.85	\$2,332.17	\$25,085.02
2004	<u>23,890.50</u>	<u>1,194.52</u>	<u>25,085.02</u>
	<u>\$46,643.35</u>	<u>\$3,526.69</u>	<u>\$ 50,170.04</u>

NOTE 7. UNRESTRICTED NET ASSETS

Unrestricted net assets include funds that have been designated or reserved for specific purposes. These purposes include the following:

	<u>Amount</u>
Working capital	\$85,428.95
Encumbrances	107,418.61
Designated fees	203,410.74
Auxiliaries	214,914.43
Plant construction	1,072,127.43
Renewal and replacement of equipment	<u>2,394,407.14</u>
Total	<u>\$4,077,707.30</u>

**Tennessee Board of Regents
Cleveland State Community College
Notes to the Financial Statements (Cont.)
June 30, 2002**

NOTE 8. PENSION PLANS

A. Defined Benefit Plan

Tennessee Consolidated Retirement System

Plan Description - The college contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing, multiple-employer, defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement, death, and disability benefits as well as annual cost-of-living adjustments to plan members and their beneficiaries. Title 8, Chapters 34-37, *Tennessee Code Annotated*, establishes benefit provisions. State statutes are amended by the Tennessee General Assembly.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee 37243-0230, or by calling (615) 741-8202.

Funding Policy - Plan members are noncontributory. The college is required to contribute an actuarially determined rate. The current rate is 6.19% of annual covered payroll. Contribution requirements for the college are established and may be amended by the TCRS's Board of Trustees. The college's contributions to TCRS for the years ended June 30, 2002, 2001, and 2000, were \$298,247.95, \$286,941.87, and \$273,673.48. Contributions met the requirements for each year.

B. Defined Contribution Plans

Optional Retirement Plans (ORP)

Plan Description - The college contributes to three defined contribution plans: Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF), Aetna Life Insurance and Annuity Company, and Variable Annuity Life Insurance Company (VALIC). These plans are administered by the Tennessee Department of the Treasury. Each plan provides retirement benefits to faculty and staff who are exempt from the overtime provisions of the Fair Labor Standards Act and who waive membership in the TCRS. Benefits depend

**Tennessee Board of Regents
Cleveland State Community College
Notes to the Financial Statements (Cont.)
June 30, 2002**

solely on amounts contributed to the plan plus investment earnings. Plan provisions are established by state statute in Title 8, Chapter 35, Part 4, *Tennessee Code Annotated*. State statutes are amended by the Tennessee General Assembly.

Funding Policy - Plan members are noncontributory. The college contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contribution made by the college to the plans was \$259,522.57 for the year ended June 30, 2002, and \$231,205.96 for the year ended June 30, 2001. Contributions met the requirements for each year.

NOTE 9. OTHER POST-EMPLOYMENT BENEFITS

The State of Tennessee administers a group health insurance program which provides post-employment health insurance benefits to eligible college retirees. This benefit is provided and administered by the State of Tennessee. The college assumes no liability for retiree health care programs. Information related to this plan is available at the statewide level in the *Tennessee Comprehensive Annual Financial Report*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

NOTE 10. CUMULATIVE EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLE

During the year ended June 30, 2002, the college implemented GASB Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and GASB Statement 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*. As a result of this implementation, the college was required to make changes in certain accounting principles, specifically the (1) adoption of capitalization criteria of \$100,000 and \$50,000 for buildings and additions, respectively; (2) change in the method of capitalizing library holdings; (3) adoption of depreciation on capital assets; and (4) recording of certain summer semester revenues between fiscal years rather

**Tennessee Board of Regents
Cleveland State Community College
Notes to the Financial Statements (Cont.)
June 30, 2002**

than in the fiscal year in which the semester was predominantly conducted. The cumulative effects of these changes on net assets are shown below:

Adoption of capitalization criteria for buildings and additions	\$ (212,907.50)
Change in method of capitalizing library holdings	\$ (7,302,582.22)
Adoption of depreciation on capital assets	\$ (9,088,747.03)
Deferred revenue recognition	\$ 79,917.22
Other	\$ (822.34)

NOTE 11. INSURANCE-RELATED ACTIVITIES

The state purchases commercial insurance for real property losses above \$5 million per year and surety bond coverage on the state's officials and employees. In the past three fiscal years, the state has not had any claims filed with the commercial insurer. Designations for casualty losses in the amount of \$5 million for deductibles and \$1.356 million for incurred losses at June 30, 2002, were established in the state's general fund to provide for any property losses not covered by the commercial insurance.

At June 30, 2002, the scheduled coverage for the college was \$22,362,400 for buildings and \$13,165,600 for contents.

The state has set aside assets for claim settlement in an internal service fund, the Claims Award Fund. This fund services all claims for risk of loss to which the state is exposed, including general liability, automobile liability, professional malpractice, and workers' compensation. The college participates in the Claims Award Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the college based on a percentage of the college's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Since the college participates in the Claims Award Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the college for bodily injury and property damage is limited to \$300,000 per person and \$1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in

**Tennessee Board of Regents
Cleveland State Community College
Notes to the Financial Statements (Cont.)
June 30, 2002**

Tennessee Code Annotated, Section 50-6-101 et seq. Claims are paid through the state's Claims Award Fund.

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The college participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the college based on estimates of the ultimate cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

NOTE 12. COMMITMENTS AND CONTINGENCIES

Sick Leave - The college records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was \$3,919,710.93 at June 30, 2002.

Operating Leases - The college has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenses under operating leases for real property were \$81,804.00 and for personal property were \$70,175.91 for the year ended June 30, 2002. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 2002, outstanding commitments under construction contracts totaled \$92,908.19 for re-roofing of the library and sidewalk replacement project, of which \$92,908.19 will be funded by future state capital outlay appropriations.

NOTE 13. AFFILIATED ENTITY NOT INCLUDED

The Cleveland State Community College Foundation is a private, nonprofit foundation with the college as the sole beneficiary. The foundation is controlled by a board independent of the college. The financial records, investments, and other financial transactions are not handled by the college, and these amounts are not

**Tennessee Board of Regents
Cleveland State Community College
Notes to the Financial Statements (Cont.)
June 30, 2002**

included in the college's financial statements. As reported in the foundation's most recently audited financial report, at June 30, 2002, the foundation's assets totaled \$4,338,685. The foundation had no liabilities at June 30, 2002, and reported net assets were therefore \$4,338,685.

NOTE 14. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The college's operating expenses by functional classification for the year ended June 30, 2002, are as follows:

<u>Functional Classification</u>	<u>Natural Classification</u>					<u>Total</u>
	<u>Salaries</u>	<u>Benefits</u>	<u>Operating</u>	<u>Scholarships</u>	<u>Depreciation</u>	
Instruction	\$4,902,603.91	\$1,165,367.78	\$931,720.97	\$63,418.26	\$ -	\$7,063,110.92
Public service	91,307.48	33,448.82	82,988.63	-	-	207,744.93
Academic support	770,476.89	226,327.46	(203,199.39)	11,508.35	-	805,113.31
Student services	842,456.19	256,527.55	628,361.52	164,915.67	-	1,892,260.93
Institutional support	1,124,722.83	323,087.82	426,510.98	3,507.00	-	1,877,828.63
Operation and maintenance of plant	486,269.30	164,027.30	911,654.85	-	-	1,561,951.45
Scholarships and fellowships	-	-	-	1,002,918.25	-	1,002,918.25
Auxiliary	-	-	28,207.65	-	-	28,207.65
Depreciation	-	-	-	-	532,523.58	532,523.58
Total	<u>\$8,217,836.60</u>	<u>\$2,168,786.73</u>	<u>\$2,806,245.21</u>	<u>\$1,246,267.53</u>	<u>\$532,523.58</u>	<u>\$14,971,659.65</u>



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT**

**SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0264
PHONE (615) 401-7897
FAX (615) 532-2765**

Independent Auditor's Report

June 9, 2003

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying balance sheet of Cleveland State Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of June 30, 2001, and the related statements of changes in fund balances and current funds revenues, expenditures, and other changes for the year then ended. These financial statements are the responsibility of the college's management. Our responsibility is to express an opinion on these financial statements, based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

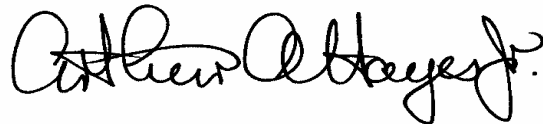
The Honorable John G. Morgan
June 9, 2003
Page Two

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Board of Regents, Cleveland State Community College, as of June 30, 2001, and the changes in fund balances and the current funds revenues, expenditures, and other changes for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 13, the college implemented GASB Statement 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 9, 2003, on our consideration of the college's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

A handwritten signature in black ink, reading "Arthur A. Hayes, Jr." with a stylized, cursive script.

Arthur A. Hayes, Jr., CPA
Director

AAH/adr

TENNESSEE BOARD OF REGENTS
CLEVELAND STATE COMMUNITY COLLEGE
BALANCE SHEET
June 30, 2001

	June 30, 2001		June 30, 2001
<u>ASSETS</u>		<u>LIABILITIES AND FUND BALANCES</u>	
Current funds:		Current funds:	
Unrestricted:		Unrestricted:	
General:		General:	
Cash (Notes 2 and 3)	\$ 905,460.72	Liabilities:	
Accounts receivable (net of allowance		Accounts payable	\$ 100,835.45
of \$13,592.01 at June 30, 2001)	114,084.35	Accrued liabilities	283,245.76
Due from restricted current funds	95,215.97	Deferred revenue	320,901.63
Due from unexpended plant	12,700.00	Compensated absences	431,786.84
Prepaid expenses and deferred charges	<u>108,998.00</u>	Other liabilities	<u>5,000.00</u>
		Total liabilities	<u>1,141,769.68</u>
		Fund balances:	
		Nondiscretionary allocations:	
		Allocation for working capital	4,673.30
		Allocation for encumbrances	64,137.09
		Allocation for designated appropriations	2,571.98
		Allocation for student activity fees	2,432.36
		Allocation for technology fees	52,061.94
		Discretionary allocations:	
		Allocation for subsequent budget	400,000.00
		Allocation for compensated absences	(431,786.84)
		Unallocated	<u>599.53</u>
		Total fund balances	<u>94,689.36</u>
Total general	<u>1,236,459.04</u>	Total general	<u>1,236,459.04</u>
Auxiliary enterprises:		Auxiliary enterprises:	
Cash (Notes 2 and 3)	137,216.28	Liabilities:	
Accounts receivable	<u>4,133.38</u>	Accounts payable	<u>183.69</u>
		Fund balances:	
		Nondiscretionary allocation:	
		Allocation for working capital	4,133.38
		Discretionary allocation:	
		Allocation for contingencies	181.85
		Unallocated	<u>136,850.74</u>
		Total fund balances	<u>141,165.97</u>
Total auxiliary enterprises	<u>141,349.66</u>	Total auxiliary enterprises	<u>141,349.66</u>
Total unrestricted	<u>1,377,808.70</u>	Total unrestricted	<u>1,377,808.70</u>
Restricted:		Restricted:	
Cash (Notes 2 and 3)	34,579.73	Liabilities:	
Accounts and grants receivable	<u>154,835.02</u>	Accounts payable	60,842.89
		Due to unrestricted current funds	<u>95,215.97</u>
		Total liabilities	<u>156,058.86</u>
		Fund balance	<u>33,355.89</u>
Total restricted	<u>189,414.75</u>	Total restricted	<u>189,414.75</u>
Total current funds	<u>\$ 1,567,223.45</u>	Total current funds	<u>\$ 1,567,223.45</u>
Loan funds:		Loan funds:	
Cash (Notes 2 and 3)	\$ 359.87	Liabilities:	
Accrued interest receivable	<u>995.82</u>	Accounts payable	<u>\$ 86.21</u>
		Fund balances:	
		U.S. government grants refundable	1,142.53
		Institutional:	
		Restricted - matching	<u>126.95</u>
		Total fund balances	<u>1,269.48</u>
Total loan funds	<u>\$ 1,355.69</u>	Total loan funds	<u>\$ 1,355.69</u>

TENNESSEE BOARD OF REGENTS
CLEVELAND STATE COMMUNITY COLLEGE
BALANCE SHEET
June 30, 2001

	<u>June 30, 2001</u>		<u>June 30, 2001</u>
<u>ASSETS</u>		<u>LIABILITIES AND FUND BALANCES</u>	
Plant funds:		Plant funds:	
Unexpended plant:		Unexpended plant:	
Cash (Notes 2 and 3)	\$ 1,046,815.99	Liabilities:	
Accounts receivable	<u>12,700.00</u>	Due to unrestricted current funds	\$ <u>12,700.00</u>
		Fund balance:	
		Unrestricted (Note 4)	<u>1,046,815.99</u>
Total unexpended plant	<u>1,059,515.99</u>	Total unexpended plant	<u>1,059,515.99</u>
Renewals and replacements:		Renewals and replacements:	
Cash (Notes 2 and 3)	<u>2,065,556.42</u>	Fund balance:	
		Unrestricted	<u>2,065,556.42</u>
Total renewals and replacements	<u>2,065,556.42</u>	Total renewals and replacements	<u>2,065,556.42</u>
Investment in plant:		Investment in plant:	
Land	290,530.50	Liabilities:	
Buildings	9,222,276.02	Loan payable (Note 5)	68,312.73
Improvements other than buildings	879,004.68	Accrued interest payable	<u>1,319.47</u>
Equipment	2,658,224.98		
Library books	3,997,632.00	Total liabilities	<u>69,632.20</u>
Other library holdings	<u>3,872,440.87</u>		
		Fund balance:	
		Net investment in plant	<u>20,850,476.85</u>
Total investment in plant	<u>20,920,109.05</u>	Total investment in plant	<u>20,920,109.05</u>
Total plant funds	\$ <u>24,045,181.46</u>	Total plant funds	\$ <u>24,045,181.46</u>
Agency funds:		Agency funds:	
Cash (Notes 2 and 3)	\$ <u>272,376.18</u>	Liabilities:	
		Deposits held in custody for others	\$ <u>272,376.18</u>
Total agency funds	\$ <u>272,376.18</u>	Total agency funds	\$ <u>272,376.18</u>

The notes to the financial statements are an integral part of this statement.

TENNESSEE BOARD OF REGENTS
CLEVELAND STATE COMMUNITY COLLEGE
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2001

	Current Funds			Plant Funds			
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Loan Funds</u>	<u>Unexpended</u>	<u>Renewals and Replacements</u>	<u>Retirement of Indebtedness</u>	<u>Investment In Plant</u>
<u>REVENUES AND OTHER ADDITIONS</u>							
Unrestricted current funds revenues	\$ 12,932,106.14	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Auxiliary enterprise revenues	104,678.35	-	-	-	-	-	-
State appropriations	-	95,970.00	-	391,558.87	-	-	-
Federal grants and contracts	-	1,797,601.81	-	-	-	-	-
State grants and contracts	-	404,604.93	-	-	-	-	-
Private gifts, grants, and contracts	-	11,625.04	-	72,739.21	-	-	-
Investment income	-	-	0.93	50,744.46	58,188.36	-	-
Interest on loans receivable	-	-	71.69	-	-	-	-
Reduction in doubtful accounts	-	-	1,070.55	-	-	-	-
Expended for plant facilities (including \$113,202.49 charged to current fund expenditures)	-	-	-	-	-	-	746,989.56
Retirement of indebtedness	-	-	-	-	-	-	20,637.50
Library holdings revaluation	-	-	-	-	-	-	1,048,993.44
Other	-	935.15	20.00	-	-	-	406.07
Total revenues and other additions	13,036,784.49	2,310,736.93	1,163.17	515,042.54	58,188.36	-	1,817,026.57
<u>EXPENDITURES AND OTHER DEDUCTIONS</u>							
Educational and general expenditures	12,485,897.89	2,316,135.80	-	-	-	-	-
Auxiliary enterprise expenditures	33,677.01	-	-	-	-	-	-
Indirect costs recovered	-	24,008.15	-	-	-	-	-
Refunded to grantors	-	6,931.98	1,966.50	-	-	-	-
Expended for plant facilities	-	-	-	100,061.16	533,725.91	-	-
Expended for noncapital items	-	-	-	581,460.67	73,809.72	-	-
Retirement of indebtedness	-	-	-	-	-	20,637.50	-
Interest on indebtedness	-	-	-	-	-	4,447.50	-
Disposal of plant facilities	-	-	-	-	-	-	601,004.30
Total expenditures and other deductions	12,519,574.90	2,347,075.93	1,966.50	681,521.83	607,535.63	25,085.00	601,004.30
<u>TRANSFERS BETWEEN FUNDS - ADDITIONS (DEDUCTIONS)</u>							
Mandatory:							
Principal and interest	(25,085.00)	-	-	-	-	25,085.00	-
Nonmandatory:							
Unrestricted current	218.50	-	(218.50)	-	-	-	-
Unexpended plant	(325,000.00)	-	-	325,000.00	-	-	-
Renewals and replacements	(1,231,233.92)	-	-	(85,000.00)	1,316,233.92	-	-
Total transfers	(1,581,100.42)	-	(218.50)	240,000.00	1,316,233.92	25,085.00	-
Net increases (decreases) for the year	(1,063,890.83)	(36,339.00)	(1,021.83)	73,520.71	766,886.65	-	1,216,022.27
Fund balances at beginning of year	1,299,746.16	69,694.89	2,291.31	973,295.28	1,298,669.77	-	19,634,454.58
Fund balances at end of year	\$ 235,855.33	\$ 33,355.89	\$ 1,269.48	\$ 1,046,815.99	\$ 2,065,556.42	\$ -	\$ 20,850,476.85

The notes to the financial statements are an integral part of this statement.

TENNESSEE BOARD OF REGENTS
CLEVELAND STATE COMMUNITY COLLEGE
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 2001

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
REVENUES			
Tuition and fees	\$ 3,504,227.38	\$ -	\$ 3,504,227.38
State appropriations	9,071,800.00	95,970.00	9,167,770.00
Federal grants and contracts	12,789.61	1,797,601.81	1,810,391.42
State grants and contracts	-	404,604.93	404,604.93
Private gifts, grants, and contracts	10,105.51	11,625.04	21,730.55
Sales and services of educational activities	7,338.31	-	7,338.31
Sales and services of auxiliary enterprises	104,678.35	-	104,678.35
Investment income	147,884.67	-	147,884.67
Other sources	177,960.66	935.15	178,895.81
Total current revenues	<u>13,036,784.49</u>	<u>2,310,736.93</u>	<u>15,347,521.42</u>
EXPENDITURES AND TRANSFERS			
Educational and general:			
Expenditures:			
Instruction	6,378,808.35	220,413.65	6,599,222.00
Public service	45,189.26	568,100.00	613,289.26
Academic support	913,960.03	13,423.43	927,383.46
Student services	1,659,389.05	12,766.72	1,672,155.77
Institutional support	1,802,449.09	6,996.00	1,809,445.09
Operation and maintenance of plant	1,571,170.41	-	1,571,170.41
Scholarships and fellowships	114,931.70	1,494,436.00	1,609,367.70
Total educational and general expenditures	<u>12,485,897.89</u>	<u>2,316,135.80</u>	<u>14,802,033.69</u>
Mandatory transfer:			
Principal and interest	25,085.00	-	25,085.00
Nonmandatory transfers:			
Loan funds	(218.50)	-	(218.50)
Renewals and replacements	1,226,000.00	-	1,226,000.00
Total educational and general	<u>13,736,764.39</u>	<u>2,316,135.80</u>	<u>16,052,900.19</u>
Auxiliary enterprises:			
Expenditures	33,677.01	-	33,677.01
Nonmandatory transfers:			
Renewals and replacements	5,233.92	-	5,233.92
Unexpended plant	325,000.00	-	325,000.00
Total auxiliary enterprises	<u>363,910.93</u>	<u>-</u>	<u>363,910.93</u>
Total expenditures and transfers	<u>14,100,675.32</u>	<u>2,316,135.80</u>	<u>16,416,811.12</u>
OTHER DEDUCTIONS			
Indirect costs recovered	-	(24,008.15)	(24,008.15)
Refunded to grantors	-	(6,931.98)	(6,931.98)
Net decreases in fund balances	<u>\$ (1,063,890.83)</u>	<u>\$ (36,339.00)</u>	<u>\$ (1,100,229.83)</u>

The notes to the financial statements are an integral part of this statement.

**Tennessee Board of Regents
Cleveland State Community College
Notes to the Financial Statements
June 30, 2001**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The college is a part of the State University and Community College System of Tennessee (Tennessee Board of Regents). This system is a component unit of the State of Tennessee because the state appoints a majority of the system's governing body and provides financial support; the system is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

Basis of Presentation

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The college uses the AICPA College Guide model for accounting and financial reporting.

Basis of Accounting

The financial statements have been prepared on the accrual basis, except that depreciation on plant assets is not recorded and revenues and expenditures of an academic term encompassing more than one fiscal year are reported solely in the fiscal year in which the term is predominantly conducted. All restricted resources are recorded as additions to the fund balances of the appropriate fund groups. Restricted current resources are then recorded as revenues during the period in which they are expended or all eligibility requirements have been met. The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period, as would a statement of income or a statement of revenues and expenses.

To the extent that current funds are used to finance plant assets, the funds are accounted for as (1) expenditures, for normal replacement of movable equipment and library holdings; (2) mandatory transfers, for required debt amortization and interest; and (3) nonmandatory transfers, for all other cases.

Fund Accounting

To ensure observance of limitations and restrictions placed on the use of the resources available, the college maintains accounts in accordance with the principles of fund

**Tennessee Board of Regents
Cleveland State Community College
Notes to the Financial Statements (Cont.)
June 30, 2001**

accounting. With this procedure, resources for various purposes are classified for accounting and reporting purposes into funds for specified activities or objectives. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds with similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds which are allocated to specific purposes by the governing board. Externally restricted funds may be used only in accordance with the purposes established by the source of such funds and contrast with unrestricted funds over which the governing board retains full control to use in achieving any of its institutional purposes.

All gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund that owned such assets. Ordinary income derived from investments, receivables, and the like is accounted for in the fund owning such assets. All other unrestricted revenue is accounted for in the unrestricted current funds. Restricted gifts, grants, appropriations, and other restricted resources are accounted for in the appropriate restricted funds. Restricted current funds are reported as revenues when expended or all eligibility requirements have been met and expenditures when expended for current operating purposes.

Current Funds

Unrestricted current funds consist of those funds over which the college retains full control for use in achieving its authorized institutional purposes. Auxiliary enterprises activities are included in unrestricted current funds and include the bookstore, food services, and vending services. Restricted current funds are externally restricted and may be used only in accordance with the purposes established by their source.

Loan Funds

Loan funds consist of resources made available for student loans.

**Tennessee Board of Regents
Cleveland State Community College
Notes to the Financial Statements (Cont.)
June 30, 2001**

Plant Funds

The plant funds group consists of (1) funds set aside for the acquisition of physical properties for institutional purposes; (2) funds set aside for the renewal and replacement of institutional properties; and (3) funds expended for, and thus invested in, institutional properties.

Agency Funds

In handling these funds, the college acts solely as an agent; consequently, transactions of these funds do not affect the college's operating statements.

Compensated Absences

The college's employees accrue annual leave at varying rates, depending on length of service or classification. Some employees also earn compensatory time. The amount of these liabilities and their related benefits are recorded in the current funds. Since the liability is expected to be funded primarily from future unrestricted revenue sources, a related allocation has been made to the current fund balances so that these fund balances reflect current available funds.

Allocation for Working Capital

The unrestricted fund balance is allocated for the amount of working capital. "Working capital" is defined as the total of all petty cash, accounts receivable, inventories, and prepaid expenses in the unrestricted fund at the balance sheet date, except for student receivables credited to deferred revenue, accrued interest, and amounts due on federal letters of credit, less the accrued benefits on accrued faculty salaries.

Plant Assets

The physical plant and equipment are stated at cost at date of purchase or at fair value at date of donation. Library books are valued at \$48 per volume, and other library holdings are valued at various standardized values, which approximate current costs. Depreciation on the physical plant and equipment is not recorded.

Interest Costs

The college has adopted a policy of capitalizing all construction-related interest costs for capital projects funded by Tennessee State School Bond Authority indebtedness. All other interest costs are expensed.

**Tennessee Board of Regents
Cleveland State Community College
Notes to the Financial Statements (Cont.)
June 30, 2001**

NOTE 2. CASH

This classification includes demand deposits and petty cash on hand. At June 30, 2001, cash consisted of \$796,007.27 in bank accounts, \$1,460.00 of petty cash on hand, and \$3,664,897.92 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer.

NOTE 3. DEPOSITS

The college's deposits are in financial institutions that participate in the bank collateral pool administered by the State Treasurer. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

The laws of the State of Tennessee require that collateral be pledged to secure all uninsured deposits. Tennessee Board of Regents policies require that the market value of collateral pledged equal 115%, 100%, or 90% of the uninsured deposits at financial institutions participating in the collateral pool. The pledge level is based on financial criteria set by the Collateral Pool Board with the financially strongest institutions being eligible for the lowest pledge level.

The college also has deposits in the Local Government Investment Pool (LGIP) administered by the State Treasurer. The LGIP is part of the Pooled Investment Fund. The fund's investment policy and custodial credit risk are presented in the *Tennessee Comprehensive Annual Financial Report*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

NOTE 4. PLANT FUND ENCUMBRANCES

Plant fund encumbrances outstanding at June 30, 2001, amounted to \$14,715.55 for unexpended plant.

**Tennessee Board of Regents
Cleveland State Community College
Notes to the Financial Statements (Cont.)
June 30, 2001**

NOTE 5. LOAN PAYABLE

The Tennessee Board of Regents, on behalf of the college, borrowed funds from the state's Energy Management Loan Fund to replace a chiller. The loan has an interest rate of 5%, a face amount of \$108,605.00, a minimum annual debt service of \$25,085.02, and a due date of February 9, 2004. The balance owed by the college was \$68,312.73 at June 30, 2001.

The debt service requirements to maturity for the loan payable at June 30, 2001, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ 21,669.38	\$ 3,415.64	\$ 25,085.02
2003	22,752.85	2,332.17	25,085.02
2004	<u>23,890.50</u>	<u>1,194.52</u>	<u>25,085.02</u>
	<u>\$ 68,312.73</u>	<u>\$ 6,942.33</u>	<u>\$ 75,255.06</u>

NOTE 6. PENSION PLANS

A. Defined Benefit Plan

Tennessee Consolidated Retirement System

Plan Description - The college contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing, multiple-employer, defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement, death, and disability benefits as well as annual cost-of-living adjustments to plan members and their beneficiaries. Title 8, Chapters 34-37, *Tennessee Code Annotated*, establishes benefit provisions. State statutes are amended by the Tennessee General Assembly.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report may be obtained by writing to the Tennessee Department of the Treasury,

**Tennessee Board of Regents
Cleveland State Community College
Notes to the Financial Statements (Cont.)
June 30, 2001**

Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee 37243-0230, or by calling (615) 741-8202.

Funding Policy - Plan members are noncontributory. The college is required to contribute an actuarially determined rate. The current rate is 6.19% of annual covered payroll. Contribution requirements for the college are established and may be amended by the TCRS' Board of Trustees. The college's contributions to TCRS for the years ended June 30, 2001, 2000, and 1999, were \$286,941.87, \$273,673.48, and \$286,271.28. Contributions met the requirements for each year.

B. Defined Contribution Plans

Optional Retirement Plans (ORP)

Plan Description - The college contributes to three defined contribution plans: Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF), Aetna Life Insurance and Annuity Company, and Variable Annuity Life Insurance Company (VALIC). These plans are administered by the Tennessee Department of the Treasury. Each plan provides retirement benefits to faculty and staff who are exempt from the overtime provisions of the Fair Labor Standards Act and who waive membership in the TCRS. Benefits depend solely on amounts contributed to the plan plus investment earnings. Plan provisions are established by state statute in Title 8, Chapter 35, Part 4, *Tennessee Code Annotated*. State statutes are amended by the Tennessee General Assembly.

Funding Policy - Plan members are noncontributory. The college contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contribution made by the college to the plans was \$231,205.96 for the year ended June 30, 2001, and \$223,162.35 for the year ended June 30, 2000. Contributions met the requirements for each year.

**Tennessee Board of Regents
Cleveland State Community College
Notes to the Financial Statements (Cont.)
June 30, 2001**

NOTE 7. OTHER POST-EMPLOYMENT BENEFITS

The State of Tennessee administers a group health insurance program which provides post-employment health insurance benefits to eligible college retirees. This benefit is provided and administered by the State of Tennessee. The college assumes no liability for retiree health care programs. Information related to this plan is available at the statewide level in the *Tennessee Comprehensive Annual Financial Report*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

NOTE 8. INSURANCE-RELATED ACTIVITIES

The state purchases commercial insurance for real property losses above \$5 million per year and surety bond coverage on the state's officials and employees. During the year ended June 30, 1999, the state incurred losses in Clarksville and Jackson due to damage from tornadoes. The final settlement of \$8.96 million for the tornado damage in Clarksville was made during the year ended June 30, 2001. In the years ended June 30, 2000, and June 30, 1998, the state did not have any claims filed with the commercial insurer. A designation for casualty losses in the amount of \$8.731 million at June 30, 2001, and \$7.256 million at June 30, 2000, was established in the state's general fund to provide for any property losses not covered by the commercial insurance.

At June 30, 2001, the scheduled coverage for the college was \$22,945,700 for buildings and \$12,947,700 for contents.

The state has set aside assets for claim settlement in an internal service fund, the Claims Award Fund. This fund services all claims for risk of loss to which the state is exposed, including general liability, automobile liability, professional malpractice, and workers' compensation. The college participates in the Claims Award Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the college based on a percentage of the college's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Since the

**Tennessee Board of Regents
Cleveland State Community College
Notes to the Financial Statements (Cont.)
June 30, 2001**

college participates in the Claims Award Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the college for bodily injury and property damage is limited to \$300,000 per person and \$1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Claims Award Fund.

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The college participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the college based on estimates of the ultimate cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

NOTE 9. FEDERAL STUDENT FINANCIAL ASSISTANCE

The restricted expenditure function scholarships and fellowships includes \$1,494,436.00 of federal financial assistance for students. These programs include, but are not limited to, Federal Pell Grants and Federal Supplemental Educational Opportunity Grants.

NOTE 10. COMMITMENTS AND CONTINGENCIES

Sick Leave - The college records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was \$3,453,274.81 at June 30, 2001.

Operating Leases - The college has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenditures under operating leases for real property were \$51,366.00 and for personal property

**Tennessee Board of Regents
Cleveland State Community College
Notes to the Financial Statements (Cont.)
June 30, 2001**

were \$77,323.05 for the year ended June 30, 2001. All operating leases are cancelable at the lessee's option.

NOTE 11. AFFILIATED ENTITY NOT INCLUDED

The college is the sole beneficiary of the Cleveland State Community College Foundation. This private, nonprofit foundation is controlled by a board independent of the college. The financial records, investments, and other financial transactions are not handled by the college, and these amounts are not included in the college's financial statements. As reported in the foundation's most recently audited financial report, at June 30, 2001, the foundation's assets totaled \$4,555,091. The foundation had no liabilities at June 30, 2001, and reported net assets were therefore \$4,555,091.

NOTE 12. PRIOR PERIOD ADJUSTMENT

In prior years, the college incorrectly capitalized the cost of several re-roofing projects valued at \$254,572.83 and a parking lot resurfacing project valued at \$133,767.03. Also, the college failed to capitalize equipment valued at \$16,552.44 and to write off an asset disposal totaling \$1,415.55. As a result, beginning net investment in plant has been decreased by \$373,202.97.

NOTE 13. CHANGE IN ACCOUNTING PRINCIPLE

During the year ended June 30, 2001, the college implemented GASB Statement 33, *Accounting and Financial Reporting for Nonexchange Transactions*. No restatement of beginning fund balance was necessary.

NOTE 14. NEW ACCOUNTING PRONOUNCEMENTS

In November 1999, the Governmental Accounting Standards Board (GASB) issued Statement 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, an amendment of GASB Statement No. 34. As originally issued, Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for States and Local Governments* was not

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applicable to public institutions. Rather than issuing separate standards, GASB decided to provide financial reporting guidance for public institutions by amending Statement 34 to extend its applicability to them. Statement 35 supersedes GASB Statement 15, which currently allows public institutions to choose one of two models when preparing their financial statements—the *AICPA College Guide* model or the governmental model. As component units of a state government, most public institutions will implement GASB Statement 35 at the same time as the state government implements GASB Statement 34.

Under the provisions of the GASB standards, the college is permitted to report as a special purpose government engaged only in business-type activities (BTA). BTA reporting will require the college to present only the basic financial statements and required supplementary information (RSI) for an enterprise fund that includes management's discussion and analysis; a statement of net assets or a balance sheet; a statement of revenues, expenses, and changes in net assets; a statement of cash flows; notes to the financial statements; and other applicable RSI. The required basic financial statements described above are prepared using the economic resources measurement focus and the accrual basis of accounting. Fund financial statements are not required for BTA reporting.

Statement 34 will also require the college to retroactively and prospectively report all capital assets, net of accumulated depreciation, including infrastructure assets (long-lived capital assets such as roads and bridges) in the statement of net assets and report depreciation expense in the statement of revenues, expenses, and changes in net assets. Retroactive reporting of capital assets will require a prior-period adjustment to net assets. Management has not yet determined the effect of the implementation of this statement on the college's financial statements.